A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION

WHO MOVED YOUR WORKPLACE?

FLEXIBLE WORKPLACES ON TURBOCHARGE

INSIGHTS INTO ACTION

CUSHMAN & WAKEFIELD

CONTENTS

Deep Diving into India's Flexi-Workplaces

Call it the uberization of workplaces, or part of the shared economy phenomenon, but the flexible workplace space in India is witnessing a flurry of activity.

Over the last three years, India has seen deeper penetration of the flexible workplaces, which are bound to grow exponentially over the next few years, with rising interest from developers and occupiers and even institutional investors. In this report, Cushman and Wakefield is delving deep into the shared workplace sector to understand how the sector is expanding and evolving, while competing with traditional leasing.

While business centers have been around in the market for decades, it is only the rise of startups from the late 2000s that the requirement for collaborative spaces was realized, and cafes, hotels and coffee shops sprung up as networking hubs. The requirement for collaboration and networking spawned the need for dedicated spaces for entrepreneurs and start-ups, and thus co-working gained importance.

At the global level, the co-working segment in Asia is at the growth stage with many countries encouraging start-ups and small businesses. In Europe, the co-working space is established and some markets are evolving with focused and specialized co-working centers. In fact, specialized co-working centers are attracting group or community of entrepreneurs such as crypto currency co-working, women-centric co-working, and even a food start-up where the co-working facility is a fully operational kitchen. Although these are fast evolving in developed countries, India is still behind the curve in terms of penetration. However, one can always expect speedy replication. Currently, flexible workspaces operators typically have two primary business models- a straight lease model where the operator has better control; and a revenue sharing model with landlord that allows operator to focus on core competency.

STRAIGHT LEASE

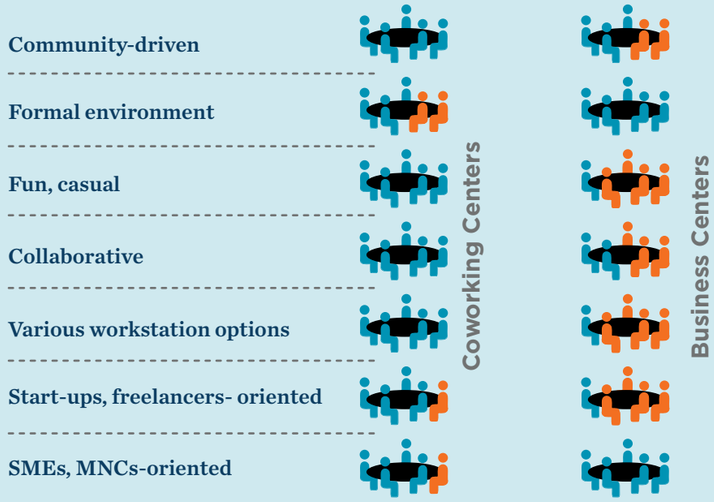
- Asset heavy
- Capital intensive
- Property leased by operator
- Full control of services, amenties, branding
- Higher risk
- Optimise revenue through membership

REVENUE LEASE

- Asset light
- Operator undertakes fit-outs, branding
- Co-working company gets a fixed share of revenue
- Various ratios for revenue share
- Allows company to focus on core competency

BUSINESS CENTERS & CO-WORKING: TWO PEAS IN A POD?

Both business centers and co-working centers offer flexible workplaces but have varied offerings, apart from the fact that co-working is growing at a faster rate. Several business center providers are venturing into or have started to offer co-working spaces too. Therefore, business centers and other categories of shared office spaces have commonly been bracketed under co-working, but there are certain key differentiating factors.



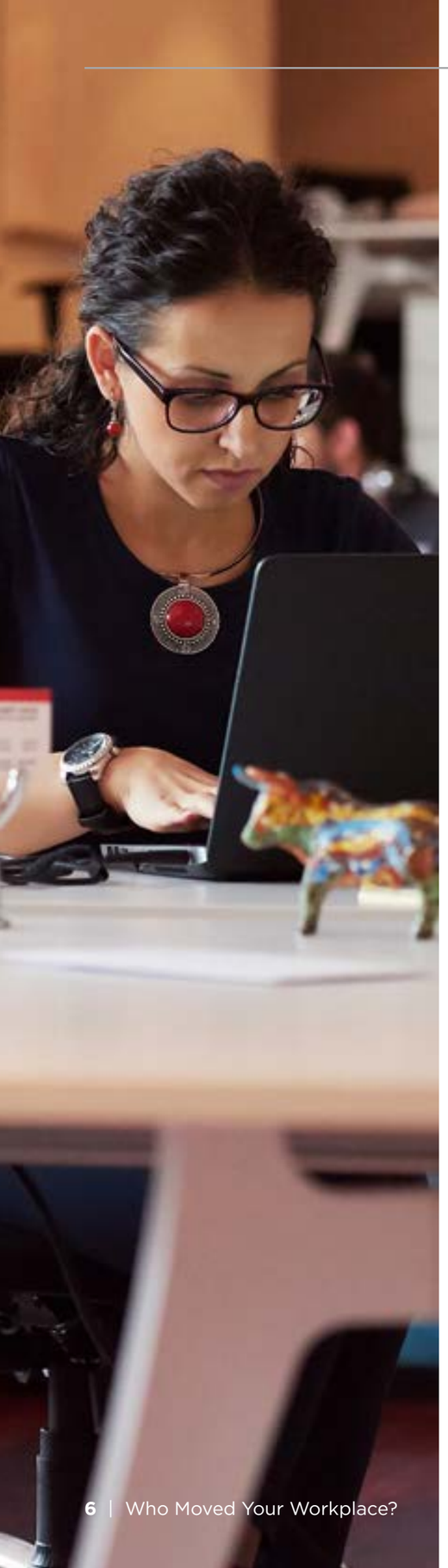
Note: The intensity of blue indicates increased alignment with the parameter

Apart from difference in space layouts, what also sets co-working spaces apart are the periodic events to create community and enable collaboration.

These usually comprise:

- Networking events providing opportunities to interact with the inhouse member base as well as external audiences
- Educational events such as panel discussions or sessions with leadership and executive level speakers on various emerging technologies, trends and issues
- Investor meets and demo days that give entrepreneurs access to Angels and Venture Capitalists to pitch their ideas and kick-start their start-up ventures
- Recreational events to keep their members fueled

Certain co-working centers also act as incubation centers to start-ups and either provide them discount on rentals, or waive off rentals, in exchange for a certain percentage of the start-ups' revenue. Some operators are monetizing alliances with third parties to provide value-added services (for marketing tools, housing services, legal services, etc.) to members.



DEMAND DRIVERS
STARTUPS, FREELANCERS FUELING SHARED WORKPLACES

With a robust start-up ecosystem, demand for co-working spaces in India is dominated by start-ups, SMEs[1] and freelancers.

From 5,200 at present, startup ventures are poised to grow 2.2 times to reach 10,500 by 2020. This will fuel up demand for space in co-working spaces[2].

In addition, millennials, who currently form a formidable force (46%) of India's workforce[3], will influence the way work is done and perceived. The trend of temporary workforce is prevalent in the US and Europe, and is slowly catching up in India too.

The trend of temporary workforce is prevalent in the US and Europe, and is slowly catching up in India too. Between October 2013 and October 2017, about 7.7% of all companies on the Indeed platform in India offered flexible work unities[4].

[1] Small, Medium Enterprises
[2] NASSCOM
[3] Morgan Stanley
[4] Global jobs website Indeed

ENTERPRISES USING CO-WORKING AS BUSINESS SOLUTION

Besides on-demand jobs, large corporates have realized the potential of co-working in providing exposure, and in networking and collaboration opportunities. Since last year, the market is witnessing corporates taking the plunge and leasing space in shared workplaces. This shift to co-working might become more prominent with the increasing popularity of flexi staffing, wherein short-duration teams are set up for specific product or project-based development mainly in the IT sectors among others. Companies such as Adobe, Cisco, Gartner, E&Y, Dell, Airtel, Nearbuy, Xander, Godaddy, HSBC, Truecaller, etc. have leased desks in co-working centers across top Indian cities.

Some reasons corporates opt for co-working centers:

- Foraying into a new geography without incurring substantial capital expenditure to set up office
- Relocating some teams closer to clients
- With advancement in Artificial Intelligence and Automation, companies are experimenting with permanent or temporary new divisions with domain specific talent. For such new initiatives, co-working works out as a more convenient, time saving and flexible solution.
- Creative teams of large organizations work out of co-working spaces to benefit from professional socializing, the entrepreneurial vibe and events.
- Companies are using co-working centers as innovation hubs to brainstorm and nurture ideas

In a situation of tight markets with low vacancy levels in traditional offices across some cities, as well as long gestation period of setting-up an office, corporates are considering parking teams in flexible workplaces for definite periods of time. We expect corporate occupiers to continue to use need-based leasing models more frequently.

COWORKING MAKING INROADS
SECTOR ON RAMP-UP MODE AMIDST STIFF COMPETITION

Strong demand and low entry barriers have given way to intense competition among flexible workplace operators to capture a slice of the burgeoning pie. With more than 120 operators in the top eight cities, companies are scaling up as they chase better valuation and funding, fending off competition in the process. In India, established developers such as Embassy, RMZ have forayed into this space either by partnering with a co-working company or by starting their own services. At the same time, domestic flexible workspaces players such as AWFIS, Smartworks, CoWrks, 91 Springboard, Innova8 etc. are ramping-up operations at a fast pace, with stiff competition from foreign operators such as WeWork.

In 2017, the flexible workplace segment heated up when New York-based WeWork partnered with Bengaluru developer Embassy Group to enter the Indian market. The entity has been opening centers aggressively, having opened 8 centers since its foray in India and continues to expand. In one of the biggest space uptake in the sector, WeWork leased approximately 225,000 sf of space in Gurgaon in April 2018. In the same league as WeWork is RMZ Corp's co-working platform, CoWrks that has opened 9 centers until April 2018 since its foray into the sector in 2017.

As of April 2018, flexible workplaces occupy more than 8.1 million square feet (msf) of space spanning across the top eight cities in the country. Considered the hub of start-ups, Bengaluru accounts for 32% of the total flexible workspace stock, amounting for 2.6 msf. The technology hub has seen a host of startups over the years, aided by the presence of technology firms, high investor density and availability of a good talent pool in the city.

NOTABLE OPERATORS

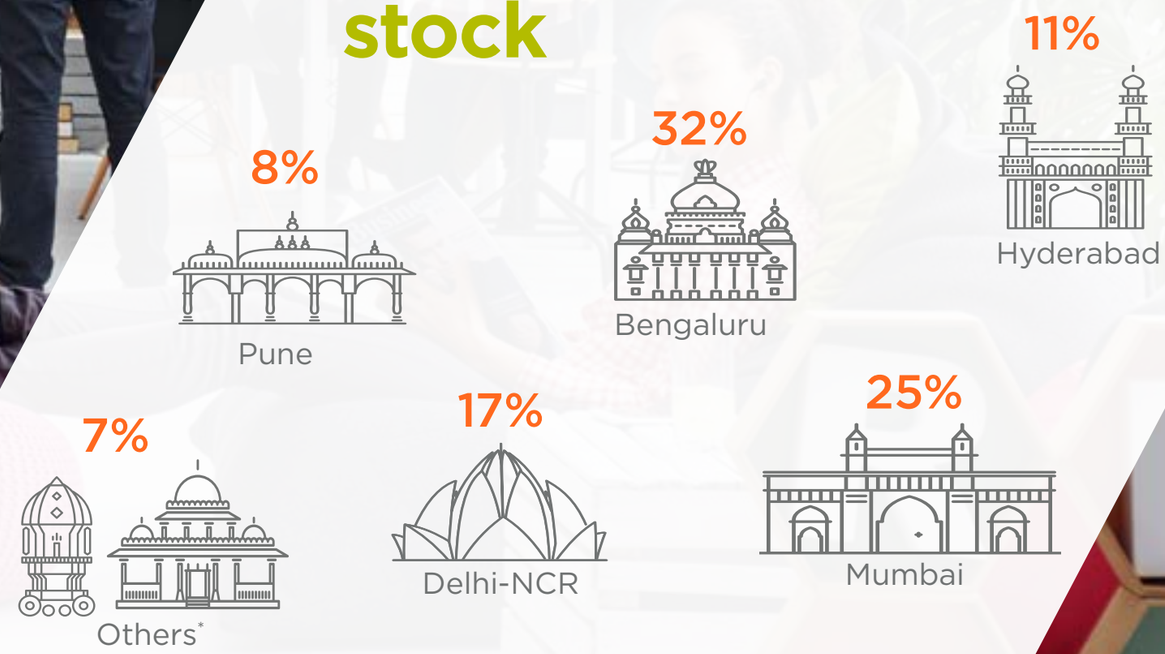
**As of April 2018*

No. of Centers		Area Leased (MSF)
50	Awfis	1.2
15	SmartWorks	1.0
9	CoWrks	0.6
8	WeWork	1.3

[6] Graded, Co-working centers, Business Centers
[7] Ahmedabad, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai, Pune

Intense competition among shared workplace operators is leading to rapid expansion with stock exceeding 8 msf across top 8 cities. We foresee current ramp-up stage to continue for the next couple of years.

Flexi-workplace stock



*Chennai, Ahmedabad, Kolkata to name a few

PRICING IS KEY
COMPETITIVE PRICING TO REMAIN IN NEAR TERM

Operators in India are offering a variety of options such as flexible desks, fixed seats and private offices at varied pricing. A study[8] of costs incurred in Grade A traditional office and a tier I co-working space in CBD and suburban locations, in Bengaluru, Gurgaon and Mumbai - reveals that a flexible seat in a co-working center can result in significant cost savings of as much as 20% in certain locations, as compared to 60 sf of traditional office space. However, flexible seats are taken up by start-ups and freelancers, with enterprises and corporates preferring fixed desks or private offices in co-working centers.

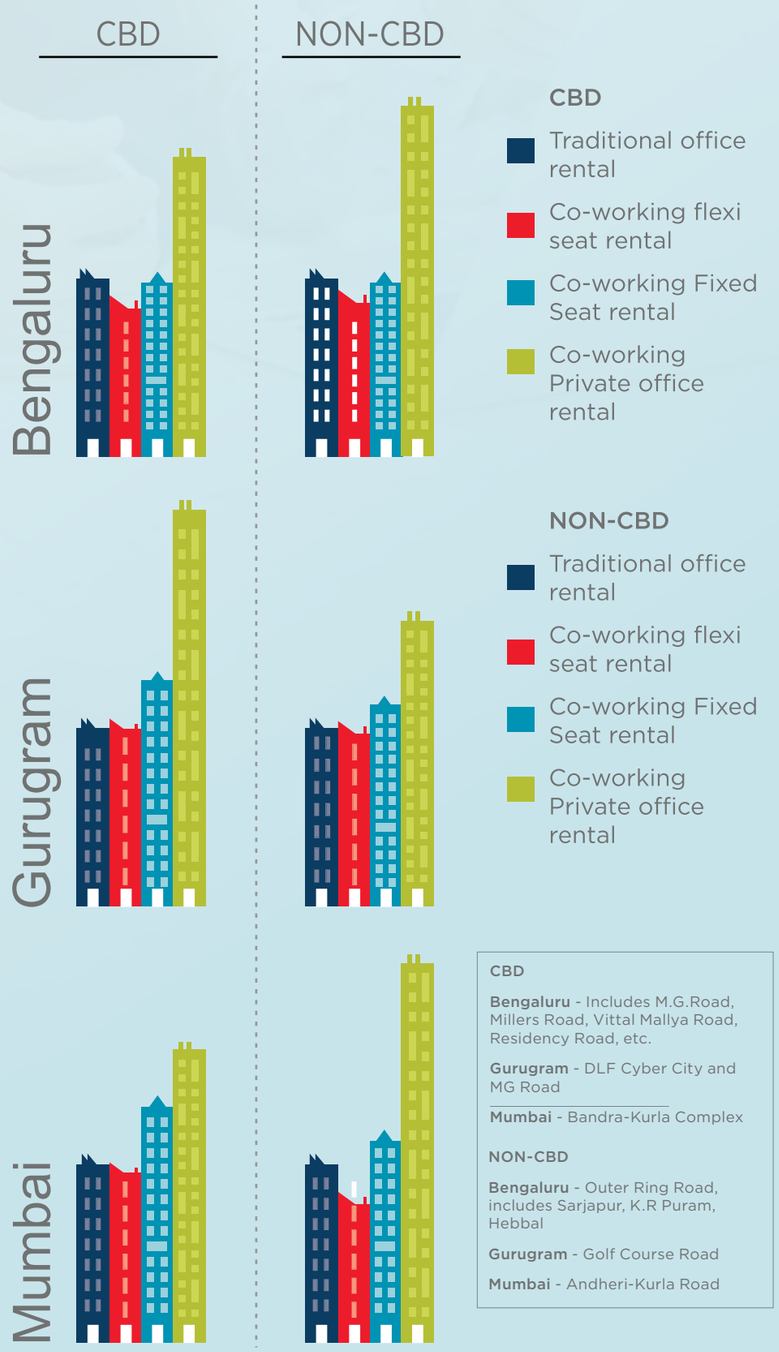
Fixed seats are seen to be comparable or slightly pricier than a traditional office of 60 sf in the same location. On the other hand, private office in a co-working space, wherein teams get a separate cabin, comes off as a more expensive proposition to occupiers in the current market scenario basis the rack/offered rates.

Overall, while private offices in shared workspaces are a more expensive proposition, operators often offer bundled packages and provide some discount to enterprises during negotiation stage. Enterprise occupiers in such spaces have the flexibility to plug and play, while benefitting from short-term leases. Moreover, rentals in shared workplaces subsume administrative overheads, with no requirement of upfront capital commitment.

[8] Assumptions: 60 sf of traditional office space; fit-out cost of USD 0.79/sf/mth

> *The market is likely to see competitive rentals in flexible workplaces prevailing for the next couple of years as operators race to capture market share and boost occupancy levels.*

COST ANALYSIS BETWEEN CO-WORKING SPACE AND TRADITIONAL OFFICE



M&A TO PICK UP PACE

CONSOLIDATION IN FUTURE TO IMPROVE MARGINS

Currently, most players are focusing on attaining scale in the market – in a situation akin to the e-commerce market during boom period. As the flexible workplace space becomes crowded to capture market share, operators will look at means to fend off competition, and enter newer market gearing towards a better stronghold on the industry. This can either be done through organic growth or consolidations. We expect that post the current euphoria in the market, the market is likely to undergo consolidation through mergers, stake purchase by institutional investors and, and even complete acquisition at the corporate level.

Internationally, WeWork is backed by Japan's Softbank which has funded the company's expansion. The last few years have seen private equity funds active in several co-working spaces in Asia. WeWork has acquired Singapore's Spacemob to support its expansion, Ucommune has raised funds from Aikang group in China, Catcha Group has backed Common Ground in Malaysia. Closer home in India, the sector is yet to see a surge of investor activity, baring a few deals such as Sequoia Capital's USD 20 million funding into Awfis, and Xander's co-working space, The Hive.

Larger players looking to enter new markets will snap up smaller peers in due course. Of the 120 operators in the market, one-third are single center operators, and such operators may either be acquired by larger players or may have to change strategy to stay relevant in the market.

Over a period, as consolidation heats up in the industry, the existence of few players in the market would lead to pricing power with few top operators. In the longer term, as operators begin to focus on profitability rentals in flexible workplaces are likely to strengthen, thereby leading to a self-sustainable sector.

Post the initial euphoria, there is likely to be consolidation in the market leading to the existence of fewer players. Hence, rentals in shared workplace are likely to firm up with operators chasing profitability and margins, away from the focus on market share.

OUTLOOK

In terms of occupiers in flexible workplaces, we expect enterprises to have flexible workplace as a small percentage of the real estate portfolio. Over a period, occupiers will start preferring leases that require lesser capital expenditure and upfront commitment, while providing flexibility. Despite the growing popularity of flexible workplaces, we foresee minimal impact on traditional office' leasing in the immediate future. There is no doubt that corporates are jumping on to the shared workplaces bandwagon, but it will be a while before it can alter traditional leasing.

The way commercial buildings are managed and promoted is being challenged by newer lease models that require lesser capex and commitment and provide flexibility especially for companies. The big question to ponder over, however, is whether co-working can nudge traditional landlords to make leasing flexible ten years from now. For example, in the UK, the average lease length has fallen from 16 years in 2000 to 5-8 years, with some terms even lower than 5 years.

IMAGINE THIS: The year is 2030 and tenants are increasingly opting for flexibility in leases owing to changing business needs and volatility. Landlords in traditional offices are offering short-term leases, from as low as 1 year to 10 years. Landlords are offsetting the potentially lower rental income by offering shorter term at higher rentals than longer term. Tenants can also modify space requirements and design and fit-outs during shorter duration of time led by technology innovations such as prefab.

Can the advent of shared workplaces alter traditional leasing terms in the future?

INSIGHTS INTO ACTION

Scan to know more:

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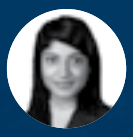

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